

April 23, 2009

The Honorable Charles B. Rangel
U.S. House of Representatives
Chairman, House Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Rangel:

The undersigned trade associations are steering committee members of the National Coalition on Benefits (NCB), and collectively represent hundreds of employers that sponsor health benefits for tens of millions of Americans. In yesterday's hearing before the Committee on Ways and Means on private insurance market reforms, you raised the important issue of the proposed "public plan" option that would be run by the government and compete with private and group health plans. Although our witness was not authorized to express an official position on behalf of the entirety of NCB's diverse membership, we steering committee members do share important reservations about the effect a public plan would have on existing employer coverage and want to respond quickly to your question. We believe there are more effective ways to reform the individual market that do not include the significant drawbacks we outline below.

Proposals to have a "public plan" compete in the private marketplace are of grave concern to employers who provide health insurance coverage, particularly given the history of Medicare's impact in the marketplace. A public plan, particularly combined with the impact of Medicare, Medicaid, and other public plans, cannot operate on a level playing field and compete fairly if it acts as both a payer and a regulator. The public plan's unfair competitive position, both by its size and regulatory authority, will merely shift costs to the private sector and employees covered by private plans.

A public plan that would use government mandated prices would directly result in a cost-shift to other payers and thus would do nothing to address the underlying problems that make health coverage unaffordable for many. Improving the cost, quality and the efficiency of health delivery are key imperatives for reform.

We already experience that cost-shift today as Medicare, the largest payer in the United States, consistently underpays providers. Employers and our covered employees and families also see higher price tags in their medical plans because Medicare and Medicaid payment rates are set by law and are comparatively lower than rates for employer-sponsored group health plans. It is no secret that providers receive much higher payments from private insurance plans than from public plans.

Economists vary in their views about how much of the difference between employer-sponsored and public payments truly represents "cost shifting" from public to private plans. But, the fact remains that Medicare and Medicaid reimburse providers at much lower levels than commercial payers. For example, according to a 2008 Milliman actuarial study,¹ Medicare reimburses hospitals at an average of 70% of private plan reimbursements and pays physicians 78% of what they receive from private plans. Medicaid reimburses hospitals at an average of 67% of private plan rates and pays physicians at an average of 53% of private plan rates.

¹ Milliman, *Hospital and Physician Cost Shift: Payment Level Comparison of Medicare, Medicaid & Commercial Payers* study, December 2008.

Medicare's underpayment results in private payers and the people covered by these plans making up the shortfall – and increases the cost to employers of providing quality health care coverage. A “public plan” option administered by the federal government is inherently destabilizing to the employed-based health insurance benefit.

Employer plans continually innovate through technology, new programs that drive value and improve quality, while the Medicare system tends to rely primarily on the fee-for-service, volume based payment systems without a focus on care management and care coordination.

We hope the Ways & Means Committee will consider these concerns. We would like to work with you to put real reform in place in the private insurance market and improve the quality and efficiency of health care delivery, which would obviate the need for a public plan.

Sincerely,

American Benefits Council

Business Roundtable

National Business Group on Health

National Association of Manufacturers

National Retail Federation

The ERISA Industry Committee

U.S. Chamber of Commerce